



Agenda Item No. (11)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of May 20, 2021

From: Jennifer Mennucci, Director of Budget and Electronic Revenue
Amy Frye, Director of Capital and Grant Programs
Joseph M. Wire, Auditor-Controller
Denis J. Mulligan, General Manager

Subject: **INITIAL PRESENTATION OF THE PROPOSED FY 21/22 OPERATING
AND CAPITAL BUDGET**

Recommendation

The initial presentation of the Proposed Budget for Fiscal Year 2021/2022 (FY 21/22) is scheduled for the Finance-Auditing Committee meeting of May 20, 2021. It is scheduled for further discussion at the Finance-Auditing Committee meeting on June 24, 2021, and subsequent Board action on June 25, 2021. At that time, the Finance-Auditing Committee may recommend that the Board of Directors approve the FY 21/22 Proposed Operating and Capital Budget that:

1. Authorizes the following items as contained in the budget:
 - a. District Goals, Projects, and Accomplishments;
 - b. Changes to the Reserve Structure;
 - c. Changes to the Table of Organization;
2. No budgeted salary increase are included for any employees, since none have been negotiated.
3. Authorizes a Capital Contribution amount of \$21 million.
4. Authorizes the following items not currently included in the Proposed Budget but will be included in the Adopted Budget:
 - a. Any Board approved actions through June 30, 2021 that have a fiscal impact to the FY 21/22 Capital and/or Operating Budget;
 - b. Carryover any incomplete projects in the FY 20/21 Capital Budget to FY 21/22 as authorized by the General Manager;
 - c. Move capital projects from the FY 22/23 list to the FY 21/22 budget, authorized by the General Manager, as staff resources become available in FY 21/22; and,
 - d. Any final FY 20/21 budget transfers needed to comply with the Board's budget policy will be implemented in the FY 21/22 Adopted Budget Book.

Summary of Expenses and Revenues

The Proposed FY 21/22 Budget is a policy document that identifies the strategic direction and priorities of the Board of Directors for the coming budget year. The Proposed Budget is a tool with which the Board sets policy directives and initiatives that were developed in its Strategic Financial Planning process. It carries out the stated mission of the Golden Gate Bridge, Highway and Transportation District (District) within the bounds of that Strategic Financial Plan.

The sudden onset of the pandemic, the associated Shelter-in-Place Orders, and the continuous flux of health protocols caused an unprecedented drop in District revenues and kept them at that lower level for more than a year. While the District has been able to balance its FY 19/20 and FY 20/21 Budgets with substantial assistance from one-time federal funding grants, the FY 21/22 Proposed Budget still has a significant forecasted shortfall.

At this juncture there is tremendous uncertainty regarding how quickly and to what level bridge toll and transit fare revenues will rebound as restrictions on business and community activities re-open, so the District will be relying upon one-time federal money from the American Rescue Plan (ARP) Act to cover expenses during the 2021/22 fiscal year. It is anticipated that the Metropolitan Transportation Commission (MTC) will allocate the first tranche of this ARP money at its July meeting, and it is anticipated that this first tranche will be adequate to avoid a deficit in 2021/22. If this money is not forthcoming, then the District will need to greatly reduce expenses to achieve a balanced budget.

The Proposed FY 21/22 Budget includes:

- Operating Budget revenues of \$160.6 million and expenditures of \$235.3 million resulting to net loss of \$74.7 million.
- Operating Budget net loss will be offset by the remaining balance of the second tranche of CRRSAA funding of \$25.5 million that will reduce the projected net loss from \$74.7 million to \$49.2 million.
- Operating Budget includes a provision for \$49.2 million in future changes to expenses and revenues to achieve a balanced budget. This will likely be addressed with MTC's allocation of ARP money in July.
- Capital Budget revenues of \$26.1 million.
- Capital Budget expenditures of \$48.1 million.
- District reserves of \$22 million will be used to fund the FY 21/22 Capital Budget (the use of reserves will increase if the Operating Budget is not balanced with anticipated ARP funding).

The Proposed Budget includes the third year of the five-year toll increase approved by the Board and the final year of the fare increase plan for transit. These increases are more than offset by decreased revenue caused by lower bridge traffic, bus ridership and ferry ridership due to COVID 19 related public health orders. The projected future tolls, fare revenues, and state and local revenues are based on the best available data known today, and will be monitored and updated throughout the fiscal year.

Budget Development Process for the Proposed FY 21/22 Budget

As mentioned, this has been another unusual year for the preparation of the District's budget. The Proposed FY 21/22 Budget was developed between December and mid-March based on the current assumptions for District business activity at that time and for the proposed budget year. The Proposed FY 21/22 budget uses traffic and passenger assumptions that allow for a slow rise in returning customers and a faster increase in the amount of service the District is budgeted to provide.

The following overview of the Proposed FY 21/22 Budget includes a discussion of the impact of COVID-19 on the District's finances then short descriptions of the District's Proposed FY 21/22 Operating and Capital Budget.

Summary of the Impact of COVID-19 on the District's Finances

The District has experienced an unprecedented drop in customer demand in all three of its operations. After the COVID-19 Shelter-in-Place mandates were issued, bridge traffic declined 70%, ridership on Golden Gate Transit declined by 92%, and Golden Gate Ferry's ridership declined by 99%. Since those troughs in the spring of 2020, traffic bounced back quickly to 65% of pre COVID levels and gradually over 70% while transit ridership has risen slightly in past year: Bus ridership has increased to approximately 20 to 22% of pre-COVID-19 levels and Ferry ridership to 3 to 4% of pre COVID levels. This is a time of unprecedented uncertainty for the District's businesses. Future changes in customer behavior over both the short and long-term will dictate revenues and the availability of funds for operations. The District will monitor these changes and adjust its bus and ferry service levels accordingly.

COVID-19 Impact on District Revenue in the Proposed FY 21/22 Operating Budget

Bridge Division

Bridge traffic growth projections assume starting from 70% of pre-COVID-19 traffic in July 2021 and growing to 75% by the end of FY 21/22.

Bus Division

Bus ridership in the Proposed FY 21/22 Operating Budget contains ridership growth projections that assume 20% of pre-COVID-19 ridership levels in July 2021 with growth to 60% of pre-COVID-19 ridership levels by end of FY 21/22.

Ferry Division

Ferry ridership in the Proposed FY 21/22 Operating Budget contains ridership growth projections that assume ridership of 10% of pre-COVID-19 ridership levels in July 2021 with growth to 50% of pre-COVID-19 ridership levels by the end of FY 21/22.

If these assumptions are not met it will increase the need for further reductions in expenses or increases in revenues in FY 21/22 beyond the \$49.2 million already identified.

Operating Budget Overview

The Proposed FY 21/22 Operating Budget assumes an overall shortfall of \$74.7 million due to the loss of bridge toll subsidy and fare revenue. The proposed budget assumes that ridership will return at a slower pace than the restoration of Bus and Ferry transit service. In addition, the proposed budget assumes that the remaining one-time federal CRRSAA funds will be allocated in FY 21/22 reducing the projected budget shortfall to \$49.2 million. It is anticipated that this shortfall will be covered by one-time federal ARP money allocated by MTC in July 2021.

Expenses

The Proposed FY 21/22 Operating Budget of \$235.3 million in expenses is \$29.8 million more than the FY 19/20 Estimated Actual expenses of \$205.5 million. This 14.5% increase includes the following: fully funding vacant positions, re-funding commercial paper debt service due to the indenture requirement, as well as covering the increased cost of pension benefits, and District-wide contracted professional services. The budget does not include any salary increases, since none have been negotiated.

Revenues

Revenues are estimated to be \$160.6 million in FY 21/22, which represents a decrease of approximately \$12.4 million compared with FY 20/21 Estimated Actual revenue of \$173.1 million. This 7.2% decrease is primarily the result of reduction in one-time federal grants CARES ACT (\$7.7 million) and first tranche of CRRSAA (\$20.3 million) in FY20/21, offset by increase in projected Toll Revenues (\$8 million), Transit Fares (\$8.4 million) in FY21/22.

Changes to Table of Organization

The Proposed FY 21/22 Budget does not contain any changes to the Table of Organization.

Capital Budget Overview

The Proposed FY 21/22 Capital Budget includes total anticipated expenditures of \$48.1 million, funded with \$22 million District funds and \$26.1 million federal, state and local grant funds. It supports the implementation of 64 (14 new and 50 continuing) projects necessary to maintain existing services and facilities, as well as the implementation of high-priority safety and security projects. The \$48.1 million Proposed Capital Budget is allocated to the following projects: 5% to the Golden Gate Bridge Seismic Retrofit; 63% to the Suicide Deterrent System; 7% to other Bridge Division Projects; 4% to the Bus Division; 13% to the Ferry Division; and 8% for Information Systems and other District Division projects. The Proposed Capital Budget contains estimated actual FY 20/21 project expenditures and assumes that eleven projects will be completed by June 30, 2021.

In an effort to reduce the number of new projects in the FY 21/22 budget, each division prioritized its capital projects. Higher priority projects were included in the FY 21/22 budget to allow project managers to continue working and focusing their efforts on those projects. The remaining projects were included in the FY 22/23 capital project list, which consists of projects that are ready to be included in the FY 21/22 budget pending the availability of staff resources and funding for the projects. The passage of the budget will authorize the General Manager to move capital projects from the FY 22/23 list to the FY 21/22 budget, should the necessary resources be available.

Appendix D: 10-Year Capital Plan

The Proposed FY 21/22 Budget includes a draft 10-Year Capital Plan (Plan) in Appendix D. Staff will update the Plan for the Adopted Budget Book based on ongoing analyses of asset conditions and asset replacement schedules.

Use of Reserves

The Proposed FY 21/22 Budget was developed to support and implement the Board's efforts toward achieving long-term financial sustainability. It has taken years of determined fiscal stewardship by the Board to build up the District reserves necessary to maintain the billions of dollars' worth of District capital assets. Failure to maintain and replace the District's capital assets will significantly reduce the District's ability to maintain and provide essential transportation services into the future.

The Proposed FY 21/22 Operating Budget is projected to have a shortfall of \$74.7 million. The estimated roll over from the second tranche of CRRSAA is estimated to be \$25.5 million resulting in a \$49.2 million shortfall. The proposed budget assumes that MTC will allocate sufficient federal ARP funds to balance the budget, thus the only reserve funds that will be spent is the \$22 million for capital projects. If the Proposed FY 21/22 budget is balanced it is estimated that there will be a net increase in the reserves of \$11.4 million. The net increase in reserves is possible because the Proposed FY 21/22 Budget includes \$33.4 million in transfers (capital contribution and depreciation) to reserves.

Fiscal Impact

The Proposed FY 21/22 Budget projects Operating Revenues of \$160.6 million, provides a spending plan for \$235.3 million in Operating Expenses (including capital contribution and depreciation) and a need to make \$49.2 million in future reductions to expenses if MTC does not allocate sufficient ARP funds to result in a balanced budget. The Proposed Budget also projects Capital Revenues of \$26.1 million and \$48.1 million in Capital Expenditures.

Attachment: FY 21/22 Proposed Budget, will be made available on our website:
www.goldengate.org

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